

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FCSC-01 CIAE-00 DODE-00 PM-04

H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02

SS-15 USIA-06 SAM-01 SAJ-01 COME-00 TRSE-00 FRB-03

AGR-05 IGA-02 AID-05 /084 W
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P 311245Z DEC 75

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC PRIORITY 4949

C O N F I D E N T I A L SECTION 1 OF 2 BUDAPEST 4156

E.O. 11652: GDS

TAGS: EFIN, HU

SUBJECT: WORLD WAR I DEBT AND JOHNSON ACT

REF: (A) BUDAPEST 3971, (B) STATE 299810, (C) BUDAPEST 4118

1. EMBASSY HAS NOW RECEIVED FROM FOREIGN MINISTRY NOTE
NUMBER 617-13/1975 DATED DECEMBER 12, 1975 (ORIGINAL IN
ENGLISH) REPLYING TO EMBASSY NOTE OF OCTOBER 23 ON ABOVE
SUBJECT, AS PROMISED IN PARA 5 REFTEL. FOLLOWING ARE
OPERATIVE PARAGRAPHS:

2. BEGIN QUOTE: THE MINISTRY OF FOREIGN AFFAIRS WOULD
LIKE TO REASSURE THE GOVERNMENT OF THE UNITED STATES OF
AMERICA OF THE READINESS OF THE GOVERNMENT OF THE HUNGARIAN
PEOPLE'S REPUBLIC TO SETTLE THE QUESTIONS RELATED TO THE
RELIEF CREDIT. ALTHOUGH THE AMOUNT INDICATED IN THE EMBASSY'S
NOTE, REFERRED TO ABOVE, AS THE DEBT OF THE GOVERNMENT OF
THE HUNGARIAN PEOPLE'S REPUBLIC DIFFERS FROM THE AMOUNT
REGISTERED UNDER THE SAME HEADING BY THE GOVERNMENT OF THE
HUNGARIAN PEOPLE'S REPLUBLIC, IN ORDER TO COMPARE THE DATA
AND TO CLARIFY THE MODE OF SETTLEMENT, THE GOVERNMENT OF THE
HUNGARIAN PEOPLE'S REPUBLIC IS READY TO HOLD NEGOTIATIONS
WITH REPRESENTATIVES OF THE GOVERNMENT OF THE UNITED STATES
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OF AMERICA AT A TIME AND PLACE, CONVENIENT TO THEM.

3. IT WOULD BE APPRECIATED IF THE GOVERNMENT OF THE HUNGARIAN PEOPLE'S REPUBLIC WOULD KNOW, IF POSSIBLE, IN THE NEAR FUTURE THE STATEMENT OF THE GOVERNMENT OF THE UNITED STATES OF AMERICA, ASSURING THE GOVERNMENT OF THE HUNGARIAN PEOPLE'S REPUBLIC, THAT THE JOHNSON ACT (UNITED STATES PUBLIC LAW 80-772) WILL NOT APPLY TO HUNGARY AFTER THE CONCLUSION OF AN AGREEMENT ON THE SETTLEMENT OF QUESTIONS RELATED TO THE RELIEF CREDIT.

4. THE GOVERNMENT OF THE HUNGARIAN PEOPLE'S REPUBLIC WOULD LIKE TO EMPHASIZE THAT IT DOES NOT REGARD ITS OBLIGATION IN CONNECTION WITH THE SURPLUS PROPERTY AGREEMENT OF APRIL 25, 1946 AS AN UNSETTLED DEBT, SINCE IT FULFILLS THIS OBLIGATION CONTINUOUSLY IN CONSISTENCE WITH THE CONTENTS OF THE AGREEMENT UNDER REFERENCE AND AT PRESENT IS WAITING ONLY FOR THE AUTHORIZATION OF THE EMBASSY OF THE UNITED STATES OF AMERICA AND THE FINAL STATEMENT OF ACCOUNTS OF THE UNITED STATES TREASURY IN ORDER TO MAKE THE FINAL SETTLEMENT POSSIBLE.
END QUOTE.

5. COMMENT: BY WAY OF ADDITIONAL BACKGROUND IT SHOULD BE NOTED THAT IN COURSE OF CASUAL CONVERSATION WITH MCAULIFFE AT RECENT SOCIAL EVENT DEPUTY FONMIN NAGY, WHILE RECALLING HIS WASHINGTON VISIT WITH DEPUTY SECRETARY INGERSOLL AND ASSISTANT SECRETARY HARTMAN EARLIER THIS MONTH, MADE PASSING REFERENCE TO BOTH MFN AND JOHNSON ACT. DRAWING ON STATE 299810 (REF B), MCAULIFFE SAID THAT ADMINISTRATION HAS BEEN SEEKING TO PERSUADE CONGRESS TO AMEND BOTH PIECES OF LEGISLATION BUT THAT PROSPECTS FOR MFN/EMIGRATION AMENDMENT DURING 1976 ARE LESS THAN ENCOURAGING, AND THAT AT THIS TIME THERE APPEARS TO BE NO SENTIMENT WHATEVER ON CAPITOL HILL TO ALTER JOHNSON ACT IN ANY WAY. NAGY IMMEDIATELY RESPONDED THAT HIS OWN SOUNDINGS IN WASHINGTON WITH DEPARTMENT AND WITH AMBASSADOR ESZTERGALYOS HAD ALSO LED HIM TO RUEFUL CONCLUSION THAT "DISCRIMINATORY PROVISIONS" OF TRADE ACT OF 1974 UNLIKELY TO BE MODIFIED UNTIL AFTER 1976 NATIONAL ELECTION. NAGY QUICKLY ADDED THAT, BECAUSE OF HUGE AGGREGATE SUMS INVOLVED, HUNGARIAN FONOFF HAD NEVER ENTERTAINED HOPE THAT JOHNSON ACT WOULD BE AMENDED IN ANY WAY THAT WOULD GIVE
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RELIEF TO GOH. ON CONTRARY, NAGY ASSERTED, GOH WISHES TO COMPLY FULLY WITH TERMS OF JOHNSON ACT AS PRESENTLY WRITTEN; AND THEN, HAVING COMPLIED FULLY WITH ITS TERMS, WISHES TO INSURE THAT RESTRICTIVE PROVISIONS OF JOHNSON ACT NO LONGER APPLY TO HUNGARY. IN A PHRASE, SAID NAGY, HUNGARY SEEKS SAME "PRIVILEGED POSITION" AS FINLAND. ACCORDING TO UNDERSTANDING OF FONOFF AND FINANCE MINISTRY, HUNGARY WILL HAVE EFFECTED TOTAL COMPLIANCE WHEN (1) FINAL

STATEMENT OF ACCOUNTS FOR 1946 SURPLUS PROPERTY AGREEMENT
WORKED OUT IN DECEMBER 1975 AND (2) WHEN, AFTER NEGOTIATION
AT TIME AND PLACE OF U.S. CHOOSING, THERE IS MUTUALLY ACCEPT-
ABLE AGREEMENT ON "RELIEF CREDIT" ISSUE (WORLD
WAR I FLOUR DEBT).

6. FURTHER COMMENT: UNLESS FROM WASHINGTON PERSPECTIVE THERE ARE
OVERRIDING REASONS TO CONTRARY, MCAULIFFE WILL SEEK
OPPORTUNITY IN EARLY JANUARY 1976 TO OPEN NEGOTIATIONS
WITH GOH IN BUDAPEST LOOKING TO FINAL SETTLEMENT OF WORLD
WAR I FLOUR DEBT. THUS, WHEN THE HUNGARIAN AND AMERICAN
BOOKKEEPERS WHO HANDLE PETTY CASH (\$105.60) HAVE
RECONCILED THEIR FIGURES AND CLEARED THE 1946 SURPLUS
PROPERTY ACCOUNT, AND WHEN THE USG AND THE GOH HAVE
AGREED ON A FULL AND FINAL SETTLEMENT OF THE WORLD WAR I
FLOUR DEBT AT 100 PERCENT, AND WHEN THE GOH HAS IN FACT
PAID THAT SUM TO USG, IT IS THIS EMBASSY' UNDERSTANDING:
A) THAT THE RESTRICTIVE PROVISIONS OF THE JOHNSON ACT WILL
NO LONGER LEGALLY APPLY TO HUNGARY; AND B) THAT THE DEPARTMENT
OF STATE AND THE TREASURY DEPARTMENT WILL OFFICIALLY AND
PROMPTLY PUBLICIZE THAT FACT.

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FCSC-01 CIAE-00 DODE-00 PM-04

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P 311245Z DEC 75

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC PRIORITY 4950

C O N F I D E N T I A L SECTION 2 OF 2 BUDAPEST 4156

7. ACTION REQUESTED: BY WAY OF RESPONSE TO FONOFF NOTE

617-13/1975, EMBASSY PROPOSES DESPATCH FOLLOWING NOTE:

BEGIN QUOTE: THE GOVERNMENT OF THE UNITED STATES OF AMERICA HAS DIRECTED THE HONORABLE EUGENE V. MCAULIFFE, ITS EMBASSY EXTRAORDINARY AND PLENIPOTENTIARY IN BUDAPEST, TO CONDUCT NEGOTIATIONS IN THAT CITY WITH AUTHORITIES OF THE HUNGARIAN PEOPLE'S REPUBLIC WITH A VIEW TO SETTLING ARREARAGES REGARDING THE 1924 FUNDING OF THE DEBT ARISING FROM THE SALE OF FLOUR BY THE UNITED STATES GRAIN CORPORATION TO HUNGARY, WHICH WAS THE SUBJECT OF EMBASSY NOTE 361, OCTOBER 23, 1975.

IF HUNGARY MAKES PAYMENT TO ELIMINATE ARREARAGES ARISING FROM THE AFOREMENTIONED DEBT AND IF HUNGARY MAKES PAYMENT TO ELIMINATE ARREARAGES RESULTING FROM THE SALE OF UNITED STATES SURPLUS PROPERTY PURSUANT TO THE AGREEMENT OF APRIL 25, 1946, THE RESTRICTIVE PROVISIONS OF THE JOHNSON ACT (U.S. PUBLIC LAW 80-772) WILL NO LONGER APPLY TO HUNGARY. THE SAID JOHNSON ACT WILL NOT APPLY TO THE GOVERNMENT OF THE HUNGARIAN PEOPLE'S REPUBLIC SO LONG AS THAT GOVERNMENT IS NOT IN DEFAULT IN PAYMENTS ON OBLIGATIONS DUE TO THE GOVERNMENT OF THE UNITED STATES OF AMERICA. IT IS FURTHER UNDERSTOOD THAT, AS OF THE DATE OF

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THIS NOTE, THERE ARE NO OTHER OUTSTANDING OBLIGATIONS OF THE GOVERNMENT OF THE HUNGARIAN PEOPLE'S REPUBLIC TO THE GOVERNMENT OF THE UNITED STATES OF AMERICA SAVE THOSE ARREARAGES REGARDING THE 1924 FUNDING OF THE DEBT ARISING FROM THE SALE OF FLOUR BY THE UNITED STATES GRAIN CORPORATION AND THOSE ARREARAGES REGARDING THE SALE OF UNITED STATES SURPLUS PROPERTY PURSUANT TO THE AGREEMENT OF APRIL 25, 1946.

AS SOON AS THE GOVERNMENT OF THE HUNGARIAN PEOPLE'S REPUBLIC HAS MADE PAYMENT TO THE GOVERNMENT OF THE UNITED STATES OF AMERICA TO EFFECT FULL AND COMPLETE SETTLEMENT OF BOTH THESE ARREARAGES, THE DEPARTMENT OF STATE AND OTHER AGENCIES OF THE UNITED STATES GOVERNMENT WILL BE IN A POSITION TO GIVE PROMPT AND OFFICIAL PUBLIC NOTIFICATION TO ALL INTERESTED PERSONS, ORGANIZATIONS AND CORPORATE ENTITIES THAT THE RESTRICTIVE PROVISIONS OF THE JOHNSON ACT NO LONGER APPLY TO HUNGARY.

AMBASSADOR MCAULIFFE HAS BEEN INSTRUCTED TO MEET IN BUDAPEST WITH THE PERSON WHO WILL REPRESENT THE HUNGARIAN PEOPLE'S REPUBLIC AT A MUTUALLY CONVENIENT DATE AND TIME AND TO SEEK TO NEGOTIATE A MUTUALLY SATISFACTORY SETTLEMENT OF THIS ISSUE IN ACCORDANCE WITH THE PRINCIPLES STATED ABOVE.

END QUOE.

MCAULIFFE

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